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Prices and Incomes

- The way the various price indices have reacted since the drachma was readjusted gives rise to hopes for the future. Even the most sensitive of all price indices, namely, that of wholesale prices, showed only a slight upward trend and kept well within the anticipated increase, and thus any serious disturbance in the functioning of the economy was avoided. It is, therefore, very likely that prices will become, at least in the near future, the decisive anti-inflationary factor in Greek economy following the drachma readjustment.

Price Indices of the Bank of Greece

- (1938 = 1)

	<u>Wholesale</u>	<u>Retail</u>	<u>Cost of Living</u>
1951 April	413.9	421.1	342.6
1952 April	398.3	432.4	367.0
May	394.2	421.8	366.0
1953 March	387.7	429.4	364.9
April	404.7	426.2	366.0
May	441.1	435.8	375.4
June	475.7	452.0	393.4
- The fact that the system of contributions on imports had created an average true rate of exchange exceeding the official pre-readjustment rate, does not preclude a further tendency of prices to rise. This tendency was anticipated by the Government; on the other hand, however, the very necessity of a readjustment should ensure its success, despite the inflationary pressure which inevitably arises from devaluation. The main sources of such inflationary pressure, and the necessary steps taken by the Government to counteract same, are listed below:

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(a) Firstly, consideration must be given to the case of imported goods on which no contribution was levied, and also to those goods which were burdened with only a small contribution, namely basic foodstuffs, raw materials and fuel. A rise in the prices of these goods, which accounted for approximately 60% of the total imports will certainly be reflected in the general price level.

However, the pressure on the general price level resulting from this source is not proportional to the rise in price of goods which used to be exempted from, or very little burdened with, contributions, because a large part of these goods, namely foodstuffs, have ceased to occupy an important place among the commodities formerly imported, owing to the progress made in home production. If, therefore, it is possible to check the rise in price of essential goods, there is a fair chance that salaries and wages may be held down as well. This would undoubtedly leave a margin for the revival of business activity in this country and for an increase in production. The foregoing is shown in the following table:

PRODUCTION AND IMPORTS OF FOOD, FUEL AND RAW MATERIALS

(Figures in thousand milliards of drachmae)

	<u>Production *</u>	<u>Imports</u>	<u>Total</u>	<u>Percentage Ratio of Production to Total</u>	<u>Percentage Ratio of Imports to Total</u>
Foodstuffs	11.3	1.1	12.4	91	9
Fuel	0.2	0.7	0.9	22	78
Raw Materials and Ores	1.7	1.2	2.9	59	41
Total gross value of primary and secondary production	28.2	5.2	33.4	84	16

Imported fuel and raw materials, in so far as they enter into the cost of industrial goods produced in this country, should be expected to exert an upward pressure on the prices of industrial products because of higher exchange rates. The consequences of such a development in industrial prices would be considerable, firstly, with respect to the competitive ability of foreign industrial goods, which may now be imported freely, and, secondly, from the point of view of a reduction in the purchasing power of the working classes. To counteract the first threat the Government decided to increase the coefficient of conversion of the metallic drachma used for the calculation of import duties.

In order to neutralize the effects of rising prices of imported goods on the general price level, the Government has followed a policy, whose aim it is to check the upward tendency of prices at the level indicated by the parity of purchasing powers.

(b) A further inflationary pressure tends to come from the rise in price of exportable products, mainly agricultural, which are, at the same time, basic consumption goods. Olive oil, rice and cotton are the three main products falling under this heading. The tendency of their respective prices to reach the levels which prevail on the

(*) Provisional estimates.

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international market (/) is kept within very narrow limits by a Governmental decision which introduced a special foreign exchange duty. This duty is calculated on the basis of the selling price of the goods, and the revenue derived from it will be used for subsidizing other goods.

(c) A third inflationary pressure will spring from: (a) the increase in agricultural income, and particularly in incomes obtained from the production of exportable goods. This may help to bring about an increase in the aggregate demand, and to establish more favourable conditions for the exploitation of the industrial potentialities of the country, which again in its turn may help to increase production and, consequently, to cut down the cost of production per unit; (b) the sudden increase in the purchasing power of those who are holding their savings in the form of gold sovereigns, as well as of those who dispose of foreign exchange derived from invisible receipts, which amounted to approximately 74.4 million dollars in 1952. In order to reduce this high liquidity of incomes resulting from the devaluation, the Government introduced new credit restrictions on trade as is shown by the following table:

TOTAL BANK CREDITS AND CENTRAL BANK CREDITS (*) TO GREEK ECONOMY

(Figures in milliards of drachmae)

	Total	Agriculture & Concentra- tion of Crops	Industry	Tobacco Trade	Commerce	Miscell.
1951 December	5,612 (3,921)	2,303 (2,126)	849 (470)	503 (450)	1,392 (419)	565 (456)
1952 December	5,428 (3,515)	2,553 (2,196)	913 (206)	445 (400)	894 (231)	623 (481)
1953 January	5,402 (3,498)	2,588 (2,268)	908 (208)	371 (331)	929 (229)	606 (462)
February	5,279 (3,453)	2,560 (2,296)	903 (215)	332 (293)	882 (186)	602 (463)
March	5,187 (3,466)	2,472 (2,291)	933 (234)	348 (311)	827 (154)	607 (476)
April	5,183 (3,483)	2,472 (2,292)	938 (233)	390 (349)	799 (141)	584 (469)
May	5,114 (3,514)	2,472 (2,268)	938 (239)	390 (388)	799 (143)	584 (476)

The Government considers this policy of credit restrictions as purely transitional until the results of the devaluation have had time to stabilize themselves. For, otherwise, currency and credit stability might well be secured, but the development of the productive forces in Greece and the enterprising spirit would be dangerously hampered; on the other hand, the ability of the country to absorb foreign aid would

(/) INTERNATIONAL PRICES OF RICE, OLIVE OIL AND COTTON

Product	Greece	USA	Turkey
Rice (kilo)	\$0.26 (8.4.53)	\$0.24 (Jan 53)	-
Olive oil (ton)	\$635-755 (8.4.53) (40--10 acid)	-	\$600 (Feb 53) (50 acid)
Cotton (kilo)	\$0.833-1 042 (8.4.53)	\$0.746 (8.4.53) (Middling 15/16")	-

The above prices for Greece expressed in dollars are reduced to one-half after 9 April.

(*) Figures in brackets refer to Central Bank credits, not including bills rediscounted, which have been included in total credits.

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be lessened and imports - and consequently also supplies of goods - would diminish (*).

The Gold Sovereign

4. It is a peculiarity of Greek economy that the development of prices is connected with the existing stock of gold sovereigns in the country. As was the case in the past, the price of the gold sovereign, after the readjustment, is highly important, both owing to its greatly increased purchasing power, which cannot easily be placed under control, as well as from the psychological point of view.
5. The price of the gold sovereign fluctuated following the currency reform at levels below the price which should have resulted from the new rate of the dollar. After fluctuating between 280 and 315 thousand drachmae in the first days following the devaluation, because of the tendency of savers to convert their foreign exchange savings into gold sovereigns, it seems that the equilibrium between supply and demand is establishing itself at a level which closely corresponds to the sovereign rate, expressed in dollars, prevailing on other European markets, as is shown in the table below:

THE DOLLAR - GOLD SOVEREIGN RATIO

	<u>Athens</u>	<u>Paris</u>	<u>Milan</u>
31.3.1953	\$11.55	\$11.70	\$11.10
6.5.1953	9.97	11.05	10.67
6.6.1953	10.73	10.78	10.79

6. Up to the present, however, there does not appear to have been either an increase in the velocity of the circulation of gold sovereigns, or a strengthening of its position as a monetary factor.

Note Circulation and Bank Deposits

7. From the point of view of the readjustment it is significant that the note circulation, after a sudden expansion over Easter due to fiscal needs, showed a steady decline from 2,604 milliards on 7 April to 2,465 milliards on 8 May 53. This decrease is mainly due to the collection of taxes, and particularly of contributions which had been imposed in order to balance the budget, and to the sale of Government stocks of goods. Moreover, it was achieved in spite of the fact that 150 milliard drachmae were put into circulation for the purchase of foreign exchange derived from invisible receipts, representing an amount of about five million dollars.

DEPOSITS WITH BANKS

(Figures in milliards of drachmae)

<u>Months</u>	<u>Total</u>	<u>Sight Deposits</u>	<u>Savings Bank Deposits</u>	<u>Time and Blocked Deposits</u>
1952 December	2,196.0	1,926.5	104.1	165.4
1953 January	2,136.4	1,849.1	106.9	180.4
February	2,138.0	1,847.8	110.3	179.9
March	2,146.2	1,850.5	114.3	181.4
April	2,208.0	1,910.5	106.9	190.6
May	2,203.1	1,913.3	103.4	186.4

(These amounts do not include deposits with the Bank of Greece.)

(*) Against average annual imports of approx \$390 million for the years 1918-1952 and pre-war imports of \$131 million (or about \$285 million today), it is estimated that imports of only \$244 million will be effected during 1952-53, including Government orders which will be used to cover part of next year's requirements. In spite of the fact that this serious drop in imports indicates that the problem of the trade balance is losing some of its momentum, it can be sustained only at the expense of Greek stocks and to the detriment of the standard of living, as the reduction in the volume of imports has not been entirely compensated by a corresponding increase in local production. In fact, as against pre-war, the population has increased by about 12%, agricultural production by 16%, and industrial production (manufacturing) by 11%, while livestock production has actually decreased.

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The Monetary Equilibrium

8. The general outline of economic facts given above leads to the conclusion that the tendency of prices to rise, and the extent of this movement, is determined, at least for the immediate future, by a series of factors, internal as well as external, objective as well as psychological. Some of these factors are bound to exert an upward pressure, while others will tend to hold prices back at a level which does not threaten to upset the monetary equilibrium of the country. Meanwhile, the basic causes of inflationary symptoms in the past, such as the deficit in the budget, irrational credit expansion, the sensitivity to psychological reactions and the abnormal creation of monopolistic profits and incomes (as for instance profits of importers which were later reduced by the imposition of contributions), either no longer exist, or have been restricted, or are likely to be restricted still further under the impact of the fiscal and organic measures taken up to now. It is possible to say, therefore, that there is a strong likelihood of prices stabilizing themselves, after a reasonable increase, at a level approximating the parity of purchasing powers, provided that the appropriate economic policy with regard to taxes, credits, etc is pursued. In this latter case, and so long as care is taken at the same time to strengthen the credit structure in Greece, we may expect the following results:

(a) The creation of possibilities and margins which will permit a solution of the most important present-day problem of Greek economy, namely that of increasing monetary availabilities for financing productive outlays and for putting foreign capital into good use, without any danger to monetary stability;

(b) The establishment of conditions which will permit the abolishment of the purely provisional measures taken after the devaluation in order to subsidize imports indirectly through the system of the special foreign exchange duty on exports.

Balance of Payments

9. While the readjustment of the drachma, as has been mentioned before, does not seem to present any serious danger to the domestic level of prices, a considerable improvement in the receipts and expenses entering into the balance of payments, and of the terms of trade, should not be immediately expected as a direct manifestation of the revision of the foreign exchange value of the drachma. In spite of more favourable conditions for these products on the international market (this is especially so for tobacco, thanks to the greater demand for oriental tobacco), and in spite of the foreign exchange duty mentioned above, it is natural that international demand, being in a stronger bargaining position, will tend to make full use of the opportunity presented by the readjustment, namely that of lowering the prices of Greek products in foreign exchange, even though their drachma value becomes higher for the producer. An increase in receipts from exports could, therefore, be achieved only if there were an immediate possibility of considerably expanding the production of exportable goods, or if large stocks were available for export, so that the increased volume of exports could more than compensate for the decrease in their foreign exchange value.
10. The following table shows:

PRODUCTION, EXPORTS AND STOCKS OF THE MAIN EXPORTABLE PRODUCTS

(Figures in thousand tons)

Product	Production			Exports			Stocks (1.4.1953)
	1950	1951	1952	1950	1951	1952	
Tobacco	58.2	62.7	41.3	26.4	31.0	41.4	1952 and previous crops: 65.9 10, plus 12 suitable for alcohol production 2.1
Currents	80.8	79.3	77.8	43.7	46.6	48.8	
Sultanas	35.0	27.6	35.0	44.4	18.0	37.6	approx 90 13.9 (home prod.)
Olive Oil	38.0	140.0	68.0	0.654	0.210	0.228	
Cotton	75.7	89.5	79.1	--	4.4	5.7	0.226 (31.12.1952)
Sponges	0.169	0.143	0.128	0.110	0.124	0.072	

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11. A marked increase in the supply of the above products does not, therefore, seem very likely. An improvement in the balance of payments may be expected to come from the invisible items and, particularly, from an increase in receipts from tourists and a decrease in invisible expenses. Imports may also show a favourable development, in spite of their liberation and decreased stocks. This means that they may possibly show a tendency to rise in moderation only, owing to the high prices of foreign goods as compared with those of local products, and to the expected increase in this year's production, as well as the strong disinflationary income and credit policy still followed by the Government.
12. A clear picture of these views is presented by the estimated balance of payments for 1953/54 which was drawn up by the Greek Government. The table below shows the balance of payments for 1953/54 compared with the preceding fiscal years.

BALANCE OF PAYMENTS

(Figures in million dollars)

<u>Credits</u>	<u>1949/50</u>	<u>1950/51</u>	<u>1951/52</u>	<u>1952/53</u>	<u>1953/54</u>
Exports	72.9	94.9	111.5	115.4	135
Invisible receipts	54.2	57.2	82.1	80.6	84
Reparations	26.4	32.4	26.8	15.5	5
Capital movements	21.0	3.6	--	--	5
Technical Assistance	2.0	1.5	1.7	0.7	1
Decrease in Bank of Greece holdings	--	6.5	--	--	--
Foreign Aid	<u>294.9</u>	<u>277.6</u>	<u>186.9</u>	<u>74.5</u>	<u>73</u>
Total	<u>471.4</u>	<u>473.7</u>	<u>409.0</u>	<u>286.7</u>	<u>303</u>
<u>Debits</u>					
Imports of consumer goods	333.4	348.6	313.2	223.4	238
" " capital "	86.9	81.6	40.3	20.2	38
Invisible payments	21.8	42.0	41.9	25.0	26
Technical Assistance	2.0	1.5	1.7	0.7	1
Capital movements (net)	--	--	3.2	1.0	--
Increase in Bank of Greece holdings	<u>27.3</u>	<u>--</u>	<u>8.7</u>	<u>16.4</u>	<u>--</u>
Total	<u>471.4</u>	<u>473.7</u>	<u>409.0</u>	<u>286.7</u>	<u>303</u>

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